IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

THE MAGNAVOX COMPANY, a Corporation, and SANDERS ASSOCIATES, INC., a Corporation, Plaintiffs, vs. APF ELECTRONICS, INC., a Corporation, UNISONIC PRODUCTS CORP., a Corporation, EXECUTIVE GAMES, INC., a Corporation, TAITO AMERICA CORPORATION, a Corporation, UNIVERSAL RESEARCH LABORATORIES, INCORPORATED, a Corporation, CONTROL SALES, INC., a Corporation, VENTURE ELECTRONIC INTERNATIONAL, LTD., a Corporation, JEWEL COMPANIES, INC., a Corporation, OSCO DRUG, INC., a Corporation, TURN-STYLE, INC., a Corporation, BENNETT BROTHERS, INC., a Corporation, and JAY-KAY DISTRIBUTORS, INC., a Corporation, Defendants.	)	NO. 77 C 3159

MEMORANDUM OPINION AND ORDER

John Powers Crowley, District Judge

This is a patent infringement action brought by The Magnavox Company (Magnavox) and its licensor, Sanders Associates, Inc. (Sanders), against various defendants. This

matter is currently before the Court on one of the defendants', APF Electronics, Inc. (APF), motion to dismiss or alternatively, to transfer the action to the Southern District of New York on the ground that venue in this district is improper.[1/] Jurisdiction is based on 28 U.S.C. §1338(a).

It is now well-settled that 28 U.S.C. §1400(b) is the exclusive venue provision for a patent infringement action. Fournco Glass Co. v. Transmirra Products Corp., 353 U.S. 222, 229 (1957); Knapp-Monarch Co. v. Casco Products Corp., 342 F. 2d 622 (7th Cir., 1965), cert. denied, 382 U.S. 828 (1965); A. O. Smith-Inland, Inc. v. Hoeganaes Corp., 407 F. Supp. 539(N.D. Ill., 1976). Furthermore, the plaintiff has the burden of demonstrating that venue is proper, Grantham v. Challenge-Cook Bros., Inc., 420 F. 2d 1182, 1184 (7th Cir., 1969), and the terms of §1400(b) should not be liberally construed. Schnell v. Peter Eckrich & Sons, Inc., 365 U.S. 260, 264 (1961).

Title 28 U.S.C. §1400(b) has two alternative requirements for laying proper venue. The statute provides:

> *Any civil action for patent infringement may be brought in the judicial district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business.*

A corporate defendant's residence is determined by the state of its incorporation. Fourneo Glass Co. v. Transmirra Products Corp., 353 U.S. 222 (1957). Since APF is a New York corporation, venue in the Northern District of Illinois is improper under the statute's first alternative. Therefore, in order to properly lay venue in this district, both prerequisites of the second alternative must be met: it must be shown that APF has committed acts of infringement and has a regular and established place of business in this district.

Since the parties' arguments focus on whether the extent of APF's activities in this district amount to a "regular and established place of business," we will assume arguendo that acts of infringement have occurred here. Thus, a description of the relevant activities is necessary.

APF is in the business of marketing electronic instruments, including the television games that are the subject of this litigation. It does not manufacture or design the games; the manufacturer is a Hong Kong corporation that became a wholly owned subsidiary of APF in 1977, and the product is designed by a New Jersey based consultant.

In addition to its New York offices, APF has two warehouses located in Brooklyn, New York and Los Angeles, California. The corporation is not authorized to do business in Illinois, nor does it maintain in this district, on a permanent

basis, office space, employees, a telephone listing, or any of its books or records.

Hirsch Sales Company, a firm located in Chicago, is a sales agent that exclusively represents APF in its product line. It has additional clients, however, although none competes with APF. Hirsch solicits sales for APF in Illinois, but the orders received are sent to New York where APF makes the determination to accept or reject them.

APF's active sales force consists of four persons, two of whom are its President and Chief Executive Officer and its Executive Vice President and Secretary. All sales persons travel throughout the country; none is assigned to a particular sales region, and none resides in the Northern District of Illinois. Within the three year period prior to the filing of this action, members of the sales staff spent 134 man-days in this district. Over half of those days involved calls made to APF's major customers, Sears, Roebuck & Co. and Montgomery Ward & Co., Inc. In addition, APF has shown its products, and its executive officers and sales staff were present at, the bi-annual consumers Electronics Shows held in Chicago from 1974 through 1977.

Until July, 1975 and for over four years before that time, APF maintained a lease on premises located in Bensenville,

Illinois, which was used by Montrose Service as a repair department for APF goods under warranty. Montrose was compensated solely by per piece repair costs, and bore all operating expenditures other than rent. Since the expiration of the lease in 1975, APF has not had any repair operation in this district.

Plaintiffs correctly argue that the test for determining whether a defendant has a regular and established place of business requires a view of the totality of business contacts and activities within the district in question. See Dual Manufacturing and Engineering, Inc. v. Burris Industries, Inc., 531 F. 2d 1283 (7th Cir., 1976). However, we cannot agree that APF's activities in this district either individually or conglomerately amount to contacts of the permanent nature required by §1400(b).

Knapp-Monarch v. Dominion Electric Corp., 365 F. 2d 175 (7th Cir., 1966), involved facts analogous to those presented in this case. The defendant manufactured irons that purportedly infringed plaintiff's patent. The defendant did not have offices in Illinois. However, it engaged a manufacturer's representative which, like Hirsch, maintained its offices in this district, servicing the defendant and other business concerns. The defendant displayed its products

at the housewares shows and maintained an authorized agent to make repairs on its appliances in accordance with its warranty. The defendant's president and sales manager periodically visited large customers doing business in the district. The Court of Appeals held that these facts did not demonstrate that the defendant had a regular and established place of business and, accordingly, found venue improper.

Plaintiffs vigorously urge that the sales nature of defendant's business and the manner in which it is conducted distinguish this case from Dominion and other cases that involved defendants who also manufacture the alleged infringing product. In so doing, they attach particular significance to the following aspects of APF's business activities: the frequent visits of APF's executive personnel to this district; APF's participation at trade shows held in Chicago; the amount of time spent with, and revenues acquired by sales to customers in this district; APF's relationship with Hirsch Sales Company; and the lease on the Bensenville repair facility.

There is little merit to plaintiffs' contention that frequent visits by APF's executives make its business here regular and established since those officers function merely as other sales personnel. APF does not engage any employees in this district. The time spent here consists of intermittent

visits that have amounted to approximately four and one-half months over a span of three years. However, even if during that period, APF personnel had permanently resided in Illinois, that contact would not necessarily be sufficient to bring APF within the scope of the statute. See University of Illinois Foundation v. Channel Master Corp., 382 F. 2d 514 (7th Cir., 1967); A.O. Smith-Inland, Inc. v. Hoeganaes Corp., 407 F. Supp. 539 (N.D. Ill., 1976).

Similarly, APF's participation in housewares shows is not a controlling factor. In Knapp-Monarch Co. v. Casco Products Corp., 342 F. 2d 622, 625 (7th Cir., 1965), cert. denied, 382 U.S. 828 (1965), the court acknowledged that while the occurrence of the shows may be a regular yearly event, it is not a permanent presence in the sense of continuously transacting business. Indeed, the fact that the biannual Consumer Electronic Show is held in Chicago may be no more than a fortuitous circumstance.[2/]

Revenues acquired from doing business in a particular district is one factor to consider in determining the venue issue. Instrumentation Specialties Co. v. Waters Assocs., Inc., 196 U.S.P.Q. 684 (N.D. Ill., 1977). However, that factor is not entitled to the weight that plaintiffs have suggested is proper here. Their reliance on Instrumentation

Specialties is misplaced. Although the court found that the defendant's business in the district, amounting to some $300,000, was significant, there were other activities in that case which are not present here. For instance, the defendant employed several sales and service personnel, leased automobiles for their use and maintained some of its business records here.

In addition, while APF does a substantial amount of business with Sears, it is uncertain whether the amount of $8.5 million or more was produced from sales made solely in this district. Each individual retail unit submits orders to APF which are then filled and shipped directly. Thus, the quoted figure may represent sales made throughout the country to individual Sears stores. In any case, since other business activities do not constitute a regular and established place of business, this factor is not sufficient to support that finding.

The assertion that Hirsch Sales Company is an exclusive sales representation of APF is inaccurate. Although Hirsch is exclusive in the sense that it does not represent firms that compete with APF, it does serve as a sales agent for other businesses. There is no indication that Hirsch is controlled by APF in any way, with the possible exception

of some sort of contractual obligations. Compare Dual Manufacturing and Engineering, Inc. v. Burris Industries, Inc., 531 F. 2d 1382, 1383 (7th Cir., 1976) with Grantham v. Challenge-Cook Bros., Inc., 420 F. 2d 1182, 1184 (7th Cir., 1969).

Hirsch and APF do not have interlocking directorates. The only compensation that Hirsch receives from APF is in the form of commissions. Hirsch purchases samples from APF of the products that it uses for demonstrations. Moreover, an exclusive representative, absent more pervasive activities would not establish that venue in this district is proper. Knapp-Monarch Co. v. Casco Products Corp., 342 F. 2d 622 (7th Cir., 1965), cert. denied, 382 U.S. 828 (1965). Cf. Coulter Electronics, Inc. v. A. V. Lars Ljungberg & Co., 376 F. 2d 743 (7th Cir., 1967), cert. denied, 387 U.S. 859 (1967). (venue improper despite the presence of exclusive distributor).

Plaintiffs contend that the Bensenville facility evidences a continuous business in the Northern District of Illinois. In addition, they claim that merely because the lease on the property ended more than two years before this suit was filed, APF is not exempt from venue in this district.

While it is true that a defendant remains subject to suit for a reasonable time after it has removed its business

from the district, Welch Scientific Co. v. Human Engineering Institute, Inc., 416 F. 2d 32, 36 (7th Cir., 1969), cert. denied, 396 U.S. 1003 (1970); Instrumentation Specialties Company v. Waters Associates, Inc., 196 U.S.P.Q. 684 (N.D. Ill., 1977), two years is not a reasonable time in light of APF's limited activities in the operation of the facility. In Welch, suit was filed only 37 days after the defendant terminated its business in the district, and in Instrumentation Specialties, the defendant left the district only five months prior to the litigation's commencement.

Further, the facts in both Welch and Instrumentation Specialties involve activities such as operating a school and maintaining a permanent residence, which were of a more permanent and continuous nature than those at issue here. Nevertheless, it is doubtful that maintaining a locale as a repair service, particularly when it is independently operated, would be a basis for finding a regular and established place of business. Knapp-Monarch Co. v. Casco Products Corp., 342 F. 2d 622, 623-24 (7th Cir., 1965), cert. denied, 382 U.S. 828 (1965).

Finally, plaintiffs assert that Dual Manufacturing and Engineering, Inc. v. Burris Industries, Inc., 531 F. 2d 1382 (7th Cir., 1976) represents an emerging trend in this circuit

which would permit a determination that proper venue exists with a showing of less business activities than those present in prior cases. A careful reading of Burris does not support plaintiffs' argument. The activities involved, such as the defendant's rental of permanent office space over 10 to 15 years and permanent display and demonstrations of its products there, were far more pervasive than those that were considered in Casco and Dominion and other cases.

We cannot agree that the Burris court intended to create a modified standard for §1400(b). Therefore, since APF's activities in this district do not warrant a finding that APF conducts a regular and established place of business here, venue in the Northern District of Illinois, as to that defendant, is improper.

This Court recognizes the strain that this decision places on judicial efficiency. A transfer to the Southern District of New York, as requested by APF, will result in litigating the same case in two forums. Alternatively, a dismissal of this action prevents plaintiffs from adjudicating its claim against an alleged patent infringer. Nevertheless, we must defer to congressional direction as set forth in §1400(b) which requires more activities to lay proper venue than those present here. Accordingly, as plaintiffs have

advised this Court that they prefer dismissal to transfer, the action against APF Electronics is dismissed for improper venue.

John Powers Crowley
United States District Judge

DATED: December 19, 1978.

1/ Defendant APF has also requested that the cause be severed and transferred in accordance with §1404(a) for the convenience of parties and witnesses and to re-assign this case pursuant to local rule 2.30. Since we conclude that venue is improper under §1400(b), there is no need to reach the transfer issue. Similarly, the issue of reassignment under the local rules is moot as the cause has been assigned to this court from Judge Grady's calendar.

2/ Illustrative of this point is, as the parties informed us at oral arguments, the winter Consumers Electronic Shows have been moved to Las Vegas.